Urge Deficit Commission to Reject Privatization or Raising Retirement Age; Make Wealthy Pay Same Rate as Working Men and Women

WASHINGTON, September 30 – Rep. Peter DeFazio (D-Ore.) and Sen. Bernie Sanders (I-Vt.) today sent a letter to the co-chairs of the National Commission on Fiscal Responsibility and Reform, the so-called Deficit Commission, outlining a plan to protect Social Security for the more than 50 million American seniors collecting benefits. The bi-partisan Deficit Commission is charged with making recommendations to rein in federal spending in order to reduce the federal budget deficit.

House Minority Leader John Boehner (R-OH) and others have recently suggested that Congress may need to privatize Social Security or raise the retirement age to help save the Social Security program from insolvency. However, we do not need to raise the retirement age or cut benefits to ensure the future solvency of the program. According to the Social Security Trust Fund Board of Trustees annual report which was released last week, without any changes in the program, the Social Security Trust Fund will continue to pay current benefits up until 2037 – 27 years from now. And without any changes in the program, after 2037 the Social Security Trust Fund would continue to pay up to 75% of current benefits until 2075.

“We can all agree that Social Security faces some challenges in the future, but we don’t have to burn down the house in order to save it,” DeFazio said. “I adamantly oppose dismantling the program through privatization, raising the retirement age, or cutting benefits to provide for the future solvency of Social Security. A better, and more fair way, to keep the program intact and provide 100 percent of promised benefits is to require millionaires to pay the same percent of their income to support Social Security as a worker who earns $30,000 a year. If we equalize the tax structure, we could provide 100 percent of promised benefits and still have room to give everyone earning less than $106,800 a year a tax cut."

In the letter to the Commission, DeFazio and Sanders stated that Social Security did not contribute to the current budget deficit and is not a threat to the country's future financial stability. Every dollar spent on Social Security is raised for the program through dedicated payroll taxes and interest earned on the Trust Fund. If revenues aren't enough to pay for 100% of promised benefits, then benefits are cut. The lawmakers criticize proposals to privatize Social Security as too risky, and urge commission members to consider lifting the cap on earnings subject to the FICA tax to help stabilize the Social Security Trust Fund. Currently, only earnings up to $106,800 a year are subject to the Social Security payroll tax (FICA). Thus, a worker earning $106,800 a year pays the same amount of FICA taxes as a CEO who makes millions of dollars a year.

According to the non-partisan Congressional Budget Office (CBO), applying the FICA tax to all earnings over $106,800 would help stabilize the Social Security Trust Fund after 2037 when it will begin to pay out more in benefits than it will take in. The surplus revenue would not only sustain current benefit levels into the foreseeable future, but would also allow Congress to reevaluate Social Security benefits for those who most rely on them, such as enhancing benefits for low income earners or reducing their payroll tax rate.

The text of the letter follows:

August 9, 2010

The Honorable Erskine Bowles

Co-Chair, National Commission on Fiscal Responsibility and Reform

1600 Pennsylvania Avenue

Washington, DC 20500

The Honorable Alan Simpson

Co-Chair, National Commission on Fiscal Responsibility and Reform

1600 Pennsylvania Avenue

Washington, DC 20500

Dear Co-Chairs Bowles and Simpson:

Thank you for your efforts to help the nation close the burgeoning federal deficit. We too have deep concerns about the countries' future viability with over $13 trillion in national debt and understand that you face difficult decisions to find ways to reduce this debt.

The long-term insolvency of the Social Security Trust Fund is one of many challenges you face, but it is neither your largest challenge nor a contributor to the current record deficits. It is important to remember that Social Security did not contribute a dime to our deficit. It has paid for every benefit check that has gone out and will continue to pay for every benefit check through 2037. Social Security is not a threat to our financial stability but rather provides financial security to millions of seniors, disabled and their children.

Although critics of Social Security claim the program is going "bankrupt" and is in "crisis," the report from the Social Security Trustees proves otherwise. The program is fundamentally sound and can remain so for the next 75 years and beyond with relatively minor changes. Under current law, the resources needed to fully pay for Social Security benefits 75-years out will fall short of the benefits owed to beneficiaries by about 0.6 percent of the gross domestic product (GDP). While there are multiple options to eliminate the long-term trust fund imbalance, advocates of Social Security privatization exaggerate the problems of Social Security to support an ideological agenda.

Proposals to privatize Social Security increases retirement risks by reducing guaranteed benefit amounts and relying on the stock market to provide benefits. We must not forget the stock market plunge in 2008, which reduced retirement savings that in many cases will take years to rebuild. Even the most skilled financial planners can't guarantee financial security in the private financial markets. Wall Street brokers and mutual fund managers stand to make billions of dollars if they are managing millions of small investment accounts. Administrative fees for these accounts could total 15 percent of worker’s retirement investments, further reducing benefits and exacerbating the insolvency of the Social Security Trust Fund. Currently, administrative costs for Social Security are very low, less than one percent of the program’s budget. The stock market is just too risky for Social Security investments.

Another option being discussed to reduce the Trust Fund imbalance is raising the full retirement age (FRA) for beneficiaries. However, doing so is equivalent to cutting benefits. A one-year increase in the FRA is equivalent to a reduction in a retiree’s monthly benefits of between 5-8 percent. According to July 2010 CBO figures, increasing the FRA an additional two months for 18 years, until it reaches the age of 70, would not significantly extend the trust fund exhaustion date yet will reduce lifetime benefits for today’s young workers by about 15 percent. Workers in physically demanding professions cannot often work additional years, and will face reduced lifetime benefits if they must claim benefits before their full retirement age. Low-income workers are most vulnerable if they lose guaranteed Social Security benefits, as they are less likely to have other forms of savings.

Instead of reducing guaranteed benefits or raising the FRA, we ask that you apply the Social Security payroll tax to all income, providing long-term financial viability for the Social Security Trust Fund. Today, taxable earnings only up to $106,800 a year is levied the Social Security payroll tax, leaving out the highest 17 percent of incomes. Thus, a worker earning $106,800 pays the same Social Security tax as a multi-millionaire. Applying the Social Security payroll tax on all incomes would correct this inequity.

The Congressional Budget Office’s July 2010 figures indicated that lifting the Social Security payroll tax minimum in 2012 would more than eliminate the actuarial imbalance of 0.6 percent GDP by increasing revenues 0.9 percent of GDP. The surplus revenue would not only sustain current benefit levels, but allow Congress to reevaluate Social Security benefits for those who most rely on them in a variety of sound ways, such as enhancing benefits for low income earners or reducing their payroll tax rate. Applying the payroll tax to all incomes extends the trust fund exhaustion date beyond the 75-year projection period. As a result, benefits will not be rolled back in 2037.

This revenue boost eliminates any reason to cut Social Security benefits. A vast majority of Social Security beneficiaries are not wealthy- the average retirement benefit is only $13,800 a year. Most retirees today have seen a decline in their living standard as home values have declined and pensions have been reduced. We must reaffirm our commitment to one of the greatest legislative accomplishments without privatizing Social Security, reducing benefits or raising the full retirement age.

Social Security provides a lifeline to millions of Americans and their livelihood will depend on the decisions you make affecting Social Security. Economic prosperity is never guaranteed during retirement and we need Social Security benefits for current and future beneficiaries now more than ever.

Sincerely,

Peter DeFazio Bernie Sanders

Member of Congress United States Senator